

## When Free Isn't Free

Members of Matmid, El Al's frequent flyer program, who earn a free ticket by accumulating points, will now have to pay a fuel tax even on free tickets. The tax is not fixed and depends on the destination; it ranges between \$50 for shorter trips to \$120 for long-haul destinations such as the United States.

As expected, Matmid members were not particularly enamored with the idea.

"El Al has a lot to learn from foreign airlines on how to treat frequent flyers," one passenger said. "Imposing a tax on passengers may net the company money in the short term, but it will not be worthwhile for them in the long term."

Despite the negative feedback El Al has said that it will go ahead with the plan.

El Al's deputy director of trade and flight relations, Rami Levy, justified the step, blaming rising fuel prices.

Perhaps frequent flyers will have to pay for their meals next.

## Bezeq Revamps Its Reduced Fee Program

At the behest of Communications Minister Ariel Atias, Bezeq is changing its criteria for deciding who gets discounts on monthly operating fees. The reductions will now be provided for those who receive guaranteed income stipends regardless of how often they use their phone.

Until now, reduced monthly charges were only given to those who used their phones infrequently. Customers who could prove that they made only a few calls per month were exempted from the NIS 49.90 monthly charge.

But an evaluation of the program conducted recently showed that the reductions were sometimes being abused: more affluent families and commercial businesses would simply use their cell phones more often to demonstrate "infrequent use," and then enjoy the monthly discounts, while many who really needed it didn't get it.

From now, all those who receive guaranteed income payments from the National Insurance Institute (NII) will automatically receive the discount. The NII will submit the list of allowance recipients to the Communications Ministry.

The annual loss to Bezeq is expected to be some NIS 70m., a generous donation by any count.

## Cell Phone Commitments May Now Be 18 Months

Communications Minister Ariel Atias seems to be backing down from his plan to forbid cellular operators from forcing customers to sign three-year contracts. Now it appears the time commitment will be reduced to 18 months.

The ministry wants to at least reduce the obligatory period before introducing portability into the cellular industry in December. Portability allows subscribers to switch companies without switching their number.

Ministry officials fear that if the three-year contracts aren't canceled the portability program may fail. They want to raise the current rate of switching between companies from 14%-15% to between 17% and 20%.

Atias' plan to cancel the contracts drew fire from the cellular firms, who have threatened subscribers would suffer should the contracts not be honored.

Cellular companies have boosted efforts to sign customers on to these long-term contracts, which account for 35% of all deals, ahead of the reforms.

## Price of Repeat Driving-Theory Test Reduced

The Knesset Finance Committee approved a proposal by Transportation Minister Shaul Mofaz to reduce the cost of a repeat driving-theory test from NIS 116 to NIS 40. This is part of a general overhaul of theory tests to improve service and reduce the waiting time for tests.

From Sept. 2, 2007, three private companies, Manpower, Sachnin and Taldor, will administer the theory tests, which are a prerequisite to getting a driver's license, with each company being responsible for one of the three districts: North, Central and Jerusalem, and South. In total, there will be 25 centers throughout the country.

The new driving-theory tests will be administered through the use of advanced computers that will identify and photograph people coming to take the tests. This is meant to prevent attempts to take the test using a false identity.

At present, the theory test is a written one marked by testers at the Licensing Division of the Transportation Ministry. The new test will be a 30-question, multiple-choice exam. To pass, the candidate has to answer 26 questions correctly.

The current test has no time limit, but the new test will have to be completed within 40 minutes, after which the computer will automatically stop the testing process.

## Shilav Recalling Baby Bathtub

The Shilav baby products chain has called on any customer who has purchased a baby bathtub called the Ambatiat Shilav between January 2006 and January 2007 to bring it in for testing at any Shilav store.

The company says that it will be conducting tests following customer complaints that the tub is incompatible with the base, which can cause it to fall over.

To date, some 700 units have been sold in Israel.

"Shilav considers baby safety a top priority and is committed to looking into any information that may guarantee safety," the company said in a statement.

Parents with questions can call 03-577-5142, or they can come to any one of the chain's stores.

## Transport Reforms Have Reduced Fares

Public transport reforms have brought down prices by 24%-50% along privatized lines, statistics from a forum of private bus companies reveals.

At the same time, bus activity on these lines rose 11%-107%, and ridership climbed by 5%-109%.

The companies said the change also brought savings of NIS 96m. (15%) to the subsidies budget the government needed to lay out before the reforms.

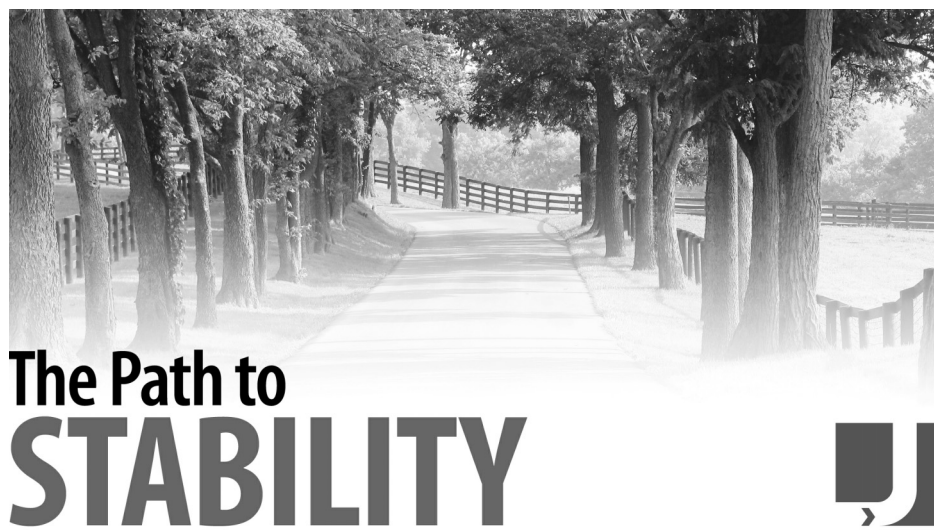
So far 15% of bus lines have been privatized, while the reforms set a goal of 25% by 2008.

## BDI: Israel Has One Lawyer For Every 255 People

A study conducted by Business Data Israel (BDI) shows that Israel has a ratio of one lawyer for every 255 people, one of the highest concentrations of lawyers in the world.

The study also shows that in the past decade the number of lawyers in Israel has more than doubled, from 14,480 in 1995 to 35,630 at the end of 2006.

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# The Path to STABILITY

## Navigating Contemporary Financial Challenges

*I run a women's clothing store from my basement, and the store's finances are a mess. The store is not an official business, and all the income is "off the books." I try to keep handwritten records of all the transactions, but it's almost impossible to keep track of every sale, purchase and return.*

*A friend who is a bookkeeper advised me to get a vendor's permit, issue proper receipts, hire an accountant and start reporting the store's income to the authorities. She said that once my business is set up "on the books," it will be easier for me to ensure that all transactions are properly documented and recorded.*

*If I have to report my income, however, most of my profits will go to taxes. I also don't have the time or the know-how to handle all the technicalities and paperwork involved.*

*Do you think I should become "official," with all the expense and hassle that entails?*

Yes, we agree with your bookkeeper friend fully.

First of all, running a business "off the books" is illegal and has halachic implications that are beyond the scope of this column. But even from a purely business standpoint, running a business "off the books" is extremely objectionable.

For one thing, if you are eventually caught — and there is no way to guarantee that you will not be caught — you will be presented with a bill that will wipe out whatever profits you made by trying to outsmart the authorities.

Even if you were never to be caught, however, you are doing yourself a great disservice by running your business "off the books."

Because you are not an official business, you have to restrict your business activities to ensure that you stay out of sight of the authorities. You have to keep your advertising efforts very low-key, you have to exercise caution when dealing with your suppliers, and you have to trust that the people coming to your store will not report you.

Moreover, you are actually stifling the potential growth of your business.

If you were to get a vendor's permit, you would have the option of moving your business out of your basement into a retail location with higher visibility, increased foot traffic and greater respectability. Without the permit, you are stuck in your house — and that may not be the optimal location for your store.

It is said in the name of wise people that, "A business that is run under the table cannot grow higher than the table." Until you register your store with the authorities, it will never be able to compete with the "real" stores. Yes, the "real" stores have to pay tax, but they are free to do whatever they think will maximize their profits without having to look over their shoulders.

But there is another important reason why it is in your interests to run your business "on the books." It is virtually impossible to keep accurate business records if you do not maintain financial transparency vis-a-vis the authorities. And for a business owner, accurate record keeping is not optional; it is a fundamental part of running a business.

If you do not keep good records, how can you know what your take-home profits are? For that matter, how can you know that your business is making money at all?

In today's competitive business environment, profit margins are usually very tight. Only by keeping accurate records can you know what

your true profit margins are, and only by monitoring your profit margins can you make informed decisions with regard to the future of your business.

Having accurate financial records can also alert you to potential red lights, such as a worker stealing or a problem with your pricing. Financial records tell the story of what is going on in the business; without them, you are operating blindly.

If you are trying to stay out of view of the authorities, accurate record-keeping is a difficult task indeed. As long as you have to cover your tracks, you cannot take the chance that someone might discover your records, and you certainly cannot avail yourself of the professional tools available to help business owners track their revenues, costs and profits.

Record keeping for a contemporary business is too complex a task to be tackled with pen and paper alone. But if your business is "off the books," what other system can you use? You certainly would not want to keep computerized records, for fear of being caught.

Running a business legally automatically gives you a framework in which to set up an efficient record keeping system. The need to report all of your transactions forces you to run your business in a disciplined, professional manner and eliminates the need for handwritten records scrawled on scraps of paper in codes you once devised but no longer understand.

You are concerned that most of your profits will disappear when you begin to pay tax. How do you know that? Did you speak to a competent accountant before arriving at that conclusion? If not, we suggest that you do so. You might be pleasantly surprised to discover that many creative — and legal — accounting solutions exist to help small business owners reduce their tax burden.

If, indeed, all of your profits would disappear if you were to pay tax, then your profit margins are probably too small to justify your store's existence in the first place. In Mesila's view, a business that can only remain profitable by dodging the taxman is not a viable business.

You also say that you do not have the time or the know-how to handle the technicalities and paperwork of running an official business. We therefore recommend that you hire a good accountant or bookkeeper who can help you with the technicalities and paperwork.

You are not saving yourself paperwork by staying off the books — instead, you are letting your business drown in a sea of haphazard, poorly recorded transactions.

Even if you were to decide, for your own reasons, to continue running your business "off the books," you would still have to go through the hassle of calculating your profits. Otherwise, you will have no way of knowing how much money your business is earning — or losing.

**MESILA**  
Providing The Path to Financial Stability

Mesila is a non-profit organization dedicated to helping families and businesses in Israel achieve financial stability and independence. With over 25 chapters across Israel, Mesila is rescuing hundreds of families and businesses from the cycle of poverty and debt through its three-pronged approach of education, counseling and financial assistance. Readers are invited to submit questions and feedback to hamodia@mesila.org. or by fax to (02) 500-0478.